CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 7, 2000

H.R. 4504
Higher Education Technical Amendments of 2000

As ordered reported by the House Committee on Education and the Workforce on May 25, 2000

SUMMARY

H.R. 4504 would amend the Higher Education Act of 1965 to make numerous technical and clarifying amendments to the statutes that govern federal student aid. In addition, the bill would change the policy on tuition refunds for Pell grants, extend for one additional year the authorization for the Web-Based Education Commission, and require the Department of Education to conduct a study of fire safety in college dormitories.

CBO estimates that implementing H.R. 4504 would cost $13 million over the 2001-2005 period, assuming appropriation of the necessary funds. Enacting this bill also would increase direct spending, so pay-as-you-go procedures would apply; but CBO estimates those changes would be negligible.

H.R. 4504 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the costs, if any, would not exceed the threshold in that act ($55 million in 2000, adjusted annually for inflation). Any other costs incurred by state, local, or tribal governments would result from complying with conditions of aid. The bill contains no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4504 is shown in the following table. The costs of this legislation fall within budget function 500 (education, employment training, and social services).

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION [a]						
Spending Under Current Law						
Estimated Authorization Level [b]	9,375	9,534	9,684	9,853	10,022	0
Estimated Outlays	9,122	9,711	9,885	10,043	10,215	8,439
Proposed Changes						
Estimated Authorization Level	0	1	3	3	3	3
Estimated Outlays	0	1	*	3	3	3
Spending Under H.R. 4504						
Estimated Authorization Level [b]	9,375	9,535	9,687	9,856	10,025	3
Estimated Outlays	9,122	9,711	9,885	10,046	10,218	8,442

a. H.R. 4504 also would affect direct spending, but by negligible amounts.

b. The 2000 level is the amount appropriated for that year for student financial assistance. Subsequent years show CBO baseline levels that include annual adjustments for anticipated inflation. The baseline levels without adjustments for inflation would stay constant at $9,375 million.

* = Less than $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 4504 will be enacted by the end of fiscal year 2000, and that funds necessary to implement the bill will be appropriated for each year.

Spending Subject to Appropriation

H.R. 4504 would increase estimated authorization levels by $1 million in 2001 and $13 million over the 2001-2005 period. These costs are the sum of several changes in authorizations. The bill would:

- Extend the temporary Web-Based Education Commission through 2001,
- Authorize the Department of Education to conduct a study on the fire safety issues related to college dormitories, and
- Make three changes to the refund policy for the Pell grants.

Web-Based Education Commission. Under current law, the authorization for the Web-Based Education Commission expires at the end of 2000. Funding for this commission is $450,000 for 2000. H.R. 4504 would extend the authorization at that level for one more year.

Fire Safety Study. H.R. 4504 would authorize the Department of Education to conduct a study on the fire safety issues related to college dormitories and to estimate the cost of bringing all dormitories into compliance with fire codes. The bill would require the department to complete the study by July 2002. Based on information from the department, CBO estimates this study would cost about $250,000 over the 2001-2002 period.

Pell Grant Refund Policy. H.R. 4504 would require the refund policies for Pell grants to be altered in several ways beginning in academic year 2001-2002. Individual schools could implement the change during the 2000-2001 academic year. First, the amount of Pell grants that a student who drops out of school during a semester would have to repay to the federal government would be reduced by 50 percent of the original grant awarded. Second, students who owe less than $50 would not have to repay any amount to the federal government. Third, students would be given a six-month grace period after they drop out to begin repayment, and no payments would have to be made while they attended school. Currently, students must return 50 percent of the amount due immediately and without regard to the amount owed.

CBO estimates that these changes would cost $3 million a year, beginning in 2002. This estimate is based on data from the National Student Loan Data System, which includes information on all overpayments of federal grants. These data were adjusted to reflect only the amount owed by Pell grant recipients who drop out during a semester. Based on the data, CBO estimates relatively few students would be affected by these refund policy changes.

Much of the budgetary impact of this change is shown in the year following the distribution of the Pell grant to the student. Refund payments from students are recorded when the dropout occurs so estimated authorization for this change is assumed to occur in the year after funds were appropriated for the Pell grant.

Direct Spending

H.R. 4504 would make numerous changes in the student loan program. Most of the changes are clarifying and technical in nature. Some changes could have federal cost impacts, but CBO estimates the federal costs of all the changes combined would be negligible. In particular, the bill would:

- Extend for two additional years the exemption of certain minority institutions with high default rates,

- Change the requirements under which students convicted for drug offenses can receive federal aid, and

- Modify certain tuition refund rules affecting both student loans and Pell grants.

Exemption for Certain Institutions of Higher Education with High Default Rates. The two-year extension applies to certain minority institutions with default rates exceeding 25 percent. The current exemptions expire in 2002. Based on information published by the Department of Education on default rates of the few schools potentially affected by this amendment, CBO estimates that the cost of the extension would be insignificant.

Students with Drug Offenses. H.R. 4504 would change the restrictions on receiving federal student aid for students convicted of a drug offense. Currently, a student is not eligible for federal student aid for a statutory period of time after the conviction—the time period increases with the number of convictions. Under the bill, only students who were convicted of a drug offense while they were receiving federal student aid would be prohibited from receiving aid for the statutory period. In addition, any student would be deemed ineligible for aid if they fail to answer the drug-related questions on the application for federal student aid.

The current drug-related rules are being implemented for the first time in academic year 2000-2001. Based on preliminary data from early applications and calls to the national student aid hotline, CBO estimates that the changes included in H.R. 4504 would have a minor effect on the participation in and costs of federal student aid programs.

Tuition Refund Policies. The bill also would require changes in the tuition refund rules for some postsecondary education programs beginning for academic year 2001-2002 (although schools could implement the rules before that date). The change is expected to have a negligible impact on the costs of the federal student aid programs. For a program that uses clock-hours rather than credit hours to set the length of a course, the refund would be based on the percentage of scheduled hours that have elapsed rather than completed hours in some circumstances.

The direct spending effects of the refund changes are generally associated with the student loan programs, but may also occur in the Pell grant program under certain circumstances. If the changes affect Pell grants funded out of existing appropriations, these effects would be considered mandatory spending. Because few schools are expected to implement the new refund policy during academic year 2000-2001, CBO estimates the tuition refund policy changes would have a negligible impact on Pell grants funded out of existing appropriations.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. Enacting H.R. 4504 would affect direct spending, but CBO estimates that the effects would be less than $500,000 a year.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 4504 would preempt certain state laws by limiting states' options for securing a creditor's interest in student loans. Under current law, some states allow the use of two methods of securing such interest: possession of loan notes or filing with the state. H.R. 4504 would allow only the filing method, with certain exceptions. CBO estimates that any costs of this preemption would not exceed the threshold in UMRA ($55 million in 2000, adjusted annually for inflation).

The bill would impose several new reporting requirements on institutions of higher education, including a requirement to notify students that they would forfeit financial aid if they are convicted of violating certain controlled substance laws. CBO assumes that these requirements are effectively placed on institutions participating in the federal student financial aid programs. The bill also would authorize a new use for certain grant funds that would require participating institutions to provide matching funds. Costs related to these provisions would be incurred voluntarily, as a condition of aid.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 4504 contains no private-sector mandates as defined in UMRA.

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